



KATHLEEN CONNELL
Controller of the State of California

December 30, 1996

**To the Citizens, Governor and Members
of the Legislature of the State of California:**

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of California for the year ended June 30, 1996. This CAFR presents all the information required to fully assess the State of California's financial condition.

As the State's Chief Financial Officer, I have strived to bring fiscal responsibility, stability, and accountability to all levels of government. I am committed to making certain that government agencies operate efficiently and that prudent management practices guide decision-making. Every dollar saved as a result of improved efficiency is a dollar that can be directed toward assuring a well-educated, safe, and healthy California.

These principles are reflected in our monthly and annual reporting on State finances, audits of state and local government entities, collection of overdue debts to the State, and other operations of the State Controller's Office. In addition, I authorized an independent performance audit of the entire State Controller's Office. The purpose of this audit was to conduct a top-to-bottom review of the department to identify where costs could be cut and services improved. Based on the audit findings, we have developed a plan for our own department that will save millions in tax dollars and allow us to deliver better customer service with less staff. This is just one example of the actions government — at all levels — needs to take to assure we have the resources to continue meeting our challenges in the future.

To help us toward the goal of improving how government operates, I remain strongly committed to the enactment of legislation to require zero-based budgeting for State agencies. This effort to completely reform the budget process nearly succeeded in the past legislative session, when it passed unopposed in the Legislature. Even though the bill was vetoed, I continue to believe that this common-sense approach to allocating tax dollars is needed. It would instill a greater degree of accountability and provide the incentive for government to do more with less.

This report has been prepared based on nationally recognized standards. It is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal and my financial overview. The overview presents a summary of financial data that is useful in evaluating the fiscal condition of the State. The Financial Section includes the general purpose financial statements and notes to the financial statements. The Financial Section also includes the combining fund and account group financial statements and schedules, which are presented for the purpose of additional analysis. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

Responsibility for the accuracy of data, and the completeness and fairness of the presentation, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and operation of the various funds, account groups, and component units of the State.

This CAFR could not have been prepared without the generous assistance and cooperation of all state agencies. We wish to thank the State Auditor and his staff for their audit of the financial statements contained in this report. I also am extremely grateful to my staff for their hard work and professionalism.

Sincerely,

A handwritten signature in black ink, reading "Kathleen Connell". The signature is fluid and cursive, with the first name "Kathleen" and the last name "Connell" clearly distinguishable.

KATHLEEN CONNELL
California State Controller